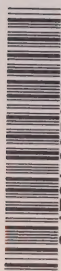


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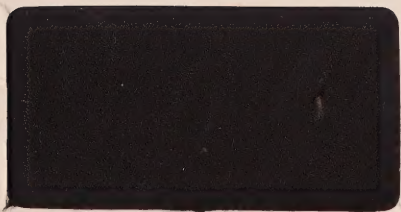


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Exports to
Developing Countries:
An Opportunity for Canada

C. D. HOWE RESEARCH INSTITUTE



**Exports to
Developing Countries:
An Opportunity for Canada**

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by Wendy Dobson



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Exports to Developing Countries: An Opportunity for Canada

Summary

The middle-income developing countries have achieved some of the most rapid economic growth rates in the world. If they are to sustain this momentum, they must increase their imports — particularly manufactures imports — from industrial countries. Canada's share in the imports of the developing countries has been limited and has been concentrated in primary products, although during the 1970s there has been a shift toward sales of manufactures. The increase in manufactures sales is largely attributable to the fact that a few large Canadian firms are exporting telecommunications and transportation equipment and mining and industrial machinery to some of the wealthiest of these middle-income countries.

In the short run, Canadian firms can expand their share of this trade, and their efforts can be facilitated by federal government policies that recognize the considerable difference between the obstacles to trade with developing countries and the ease with which Canadian firms export to the United States. Maintenance of an appropriate exchange rate and negotiation of reciprocal trading agreements with the middle-income countries are important factors in creating a favorable market environment. Because of the prominent role of the public sector in the developing countries, the federal government has a role to play in formulating a trade strategy more sharply focused on the middle-income countries and in maintaining export incentive and financing structures at least as good as those of Canada's competitors. For their part, Canadian firms can seek such arrangements as consortia and joint ventures to expand the exporting capacities of smaller Canadian firms and can explore such export promotion mechanisms as joint private-public-sector institutional arrangements and trade councils and trading houses — these reduce information barriers and extend the expertise of Canadian firms in foreign markets.

While there are some immediate gains to be made by such measures, Canada must realize that it can expand its long-term trading potential in these rapidly growing markets only by coming to grips with the adjustments required in its own industrial structure — adjustments that release the potential supply constraints on manufactures exports of Canadian branch plants built primarily to supply the domestic market and that recognize the fact that developing countries, if they are to buy more from Canada, must have greater access to Canadian markets.

Exports to Developing Countries: An Opportunity for Canada

Introduction

When Canadians think about trade with developing countries, their immediate image is of the flood of "cheap" imports that has created competitive difficulties for several manufacturing industries, and particularly for clothing and textile firms. However, major structural changes under way in the global economy are affecting the established patterns of world trade and economic growth in ways that present opportunities as well as problems for Canada. Outstanding among these changes is a shift toward increased economic dynamism in the developing countries, an increasing number of which, as a result of modernization and development strategies pursued during past decades, are now achieving economic growth rates surpassing those being achieved in the industrial countries.

This geographic shift in growth momentum has major implications for Canada and other industrial countries. Since economic modernization and rapid economic growth are keys to achieving the higher living standards sought by developing countries, these countries will use whatever means are necessary to sustain the progress that is under way. An increasingly important means of raising incomes is specialization in production for export of labor-intensive manufactured goods. The concentration of such exports in certain sectors has created serious difficulties for some Canadian industries. However, to dwell only on the difficulties posed by competition from such exports is to miss the rest of the picture. In order to modernize their economies, the developing countries must import investment goods manufactured in industrial countries. Payment for these imports requires foreign exchange, which must be earned from exports or else borrowed. The developing countries must have access to the markets of industrial countries in order to develop their own economies, and development of their economies depends, in turn, on their ability to buy from industrial countries. Thus more open trade relationships between developing countries and industrial countries can be expected to contribute to the economic development of the former and to create new market opportunities for the latter.

The implications of such global changes are especially important for Canada, one of the most trade-dependent of the industrial countries; in 1977 it exported 76 percent of all gross national product (GNP) originating in its goods-producing sectors. Historically, Canada has relied on industrial countries, particularly the United States, for export markets. Yet the current scene is one in which the economic prospects for its traditional trading partners — the United States, Europe, and Japan — are for decelerating growth, in contrast to the prospects for accelerating growth in a number of developing countries.

Government attempts to diversify markets in industrial countries have thus far produced very limited results. Canada now faces two basic trade-policy alternatives. On the one hand, it can continue to export to the slowly growing markets of traditional partners and to rely on protectionist measures to stem the flow of competitively priced imports from developing countries. On the other hand, it can recognize the fact that an important means of sustaining its economic momentum can be found in increasing trade relationships with the rapidly growing developing countries.

The purpose of this *Observations* is to examine Canada's trade response to the economic progress taking place in the developing countries during the 1970s and to discuss some of the institutional and policy changes required to pursue these new markets. The relationship of economic modernization and growth in the developing countries to economic momentum in the industrial countries will be reviewed. Canada's response to the trading opportunities that have arisen will then be examined in comparison both with other industrial countries and with Canada's performance during the early 1970s. Particular attention will be paid to Canada's export performance in finished manufactures. Finally, the policy implications of a goal of expanding trade with developing nations will be explored.

The Potential for Export Markets in Developing Countries

Governments of developing countries, faced with the need to satisfy the expectations of rapidly growing populations for continuous improvements in living standards, regard modernization of their economies as the key policy goal. Generally, such modernization involves shifts of labor from subsistence agriculture to more productive jobs in industry, improvements in agricultural productivity, and diversification of industry to substitute domestic production for imports of goods and to supply exports. Many of these modernization activities require imports of machinery and infrastructural equipment that must be paid for with scarce foreign exchange.

Raw materials exports have been one source of foreign exchange earnings, but fluctuations in demand for many of these products over the past three decades and, in many cases, the absence of adequate resource endowments have meant that exports have had to be sought among manufactures.

Industrialization patterns in the developing countries show that, among those countries that have developed industrial structures, the resource-rich have industrialized more slowly, relying on resources exports for economic growth. Resource-poor countries, in contrast, have industrialized more quickly, taking advantage of possibilities for combining large supplies of mobile, low-wage labor with imported capital to produce low-cost exportable manufactures to earn foreign exchange.¹ In an increasing number of countries

¹ World Bank, *World Development Report* (New York: Oxford University Press, 1978).

TABLE 1

**GDP Growth Rates, Selected Developing Countries
and OECD Countries,^a 1960-70 and 1970-76**
(average annual percentage changes)

	<u>1960-70</u>	<u>1970-76</u>
<i>Developing Countries</i>		
Argentina	4.2	3.2
Brazil	8.0	10.6
China	6.2	6.6
Hong Kong	10.0	7.5
India	3.6	2.7
Indonesia	3.5	8.3
Iran	11.3	8.9
Korea	8.5	10.3
Malaysia	6.5	7.8
Mexico	7.3	5.5
Saudi Arabia	9.9	14.4
Singapore	8.8	8.9
Taiwan	9.2	7.8
Venezuela	5.9	5.3
<i>OECD Countries</i>		
Canada	5.6	4.8
Japan	10.5	5.6
United Kingdom	2.9	2.3
United States	4.3	2.5

^a Value of exports on which this table is based is expressed in U.S. dollars.

Source: World Bank, *World Development Report* (New York: Oxford University Press, 1978), Annex Table 2.

this process has led to rapid growth rates, as Table 1 shows. These rates can be compared with the slower economic growth rates achieved by Canada, the United Kingdom, and the United States.² Because the developing countries are growing at significantly faster rates, they present an attractive market potential for exporting firms in a country like Canada.

The variation in growth rates achieved by the developing countries indicates a number of stages of modernization. The countries listed in Table 1 are frequently referred to as "middle-income countries" — countries in which annual per capita income exceeds U.S.\$250. The distinction by income is somewhat arbitrary but is useful for distinguishing countries in which the modern industrial

² The lower average growth rates in 1970-76 than in 1960-70 in a number of countries are due to a variety of factors, including rising oil prices in the oil-importing countries.

sector is likely to be growing sufficiently to require imported capital goods that the industrial countries can supply. Low-income countries (with per capita incomes of less than, or equal to, U.S.\$250) are generally in the earlier stages of economic development and are characterized by small industrial sectors and by less import dependence than is found in middle-income countries.³

The growth momentum achieved by the developing countries as a group plays an important role in the global economy, as has been pointed out recently by GATT economists:

During 1963-73 and 1973-76 the developing countries supplied 10 and 13 per cent respectively, of the *increase* in imports of manufactures into the industrial countries, while at the same time they purchased 21 per cent and 37 per cent, respectively, of the *increase* in the industrial countries exports in the two periods. . . . This development illustrates the important counter-cyclical or support role which developing countries can play during economic downturns in industrial countries.⁴

In contrast, slow growth in the industrial countries shows signs of persisting because of the interaction of cyclical and structural problems described recently by Marina vonN. Whitman:

In effect, the inadequate recovery in most industrialized countries from the severe recession of 1974-75 has brought about an interaction of cyclical difficulties with longer term structural problems. Persistent high unemployment and excess capacity, both in the aggregate and in particular sectors, low rates of investment and profitability, and a climate of increased uncertainty stemming in part from persistent inflation and in part from upheavals in the international economy, have all contributed to slower growth and a pervasive sense of insecurity. These have in turn engendered pressure for measures to slow down the process of adjustment-forcing change, particularly change in the form of new patterns of import competition — change “foreign” in a psychological as well as an economic sense.⁵

The developing countries offer very real export opportunities, as well as import challenges, to the industrial countries. The import challenges in the clothing and consumer goods sectors are apparent in the 1976 trade balance between industrial and developing countries shown in Table 2. The export opportunities are apparent in the long list of commodity groups with surplus balances. However, it should be noted that groups with very large surpluses — such as chemicals, road vehicles, machine parts, and agricultural and industrial machinery — may in future be targets for import substitution strategies to reduce import dependence — strategies that would offset export opportunities for the industrial countries. Overall, in 1976 the industrial countries' manufactures trade balance with the developing countries showed a surplus of nearly U.S.\$93 billion.

³India is usually included among the so-called middle-income countries because, although annual per capita incomes average less than U.S.\$250, it has a large industrial sector and is a major exporter among the developing countries. Similarly, China and Indonesia are included because of their market potential for Canada.

⁴R. Blackhurst, N. Marian, and J. Tumlrir, “Adjustment, Trade and Growth in Developed and Developing Countries,” *GATT Studies in International Trade*, No. 6 (Geneva, 1978), p. 29.

⁵Marina vonN. Whitman, “A Year of Travail: The United States and the International Economy,” *Foreign Affairs* 57, No. 3 (1979): 527.

TABLE 2

**Trade Balances in Manufactures Between Industrial Countries
and Developing Countries, 1976**
(billion dollars)

	<u>Trade Balance</u>
Iron and steel	8.3
Chemicals	14.3
Plywood and paper	1.0
Other semi-manufactures	1.9
Agricultural and industrial machinery	12.3
Machine parts n.e.s.	13.7
Office and telephone equipment	4.4
Power-generating machinery	8.5
Other engineering products	9.5
Road motor vehicles	14.1
Other transport equipment	9.7
Household appliances	2.1
Textiles	1.4
Clothing	-7.2
Other consumer goods	-1.1
All manufactures	92.8

Source: R. Blackhurst, N. Marian, and J. Tumlrir, "Adjustment, Trade and Growth in Developed and Developing Countries," *GATT Studies in International Trade*, No. 6 (Geneva, 1978), Table 21.

Canada participated in this trade, but in 1977 its overall manufactures trade balance with the developing countries was only Can.\$388 million.⁶

Canada's Response to Trade Opportunities in Developing Countries

While Canada earned a surplus in manufactures trade with the developing countries in 1977, this does not necessarily mean that Canada has found a niche in these markets. In fact, a comparison of Canada's pattern of exports with the patterns of other industrial countries and a study of the changes through time in Canada's patterns of trade give a mixed view of Canada's trade with the developing countries.⁷ A number of facts stand out in the statistical analysis that follows:

⁶Statistics Canada, *Exports by Countries*, 1977 (Ottawa, 1978).

⁷Another analysis that would be of particular interest here would be a comparison of export sales by source of finance. The two major sources of finance are commercial funding and government assistance through the Canadian International Development Agency's (CIDA) tied-aid arrangements. Recipients of CIDA's tied aid are required to use a certain proportion of the financial assistance to purchase Canadian goods. Overall, the proportion of Canada's exports financed by tied aid

- Canada's export performance in developing-country markets, as measured by the trend in value shares among OECD countries, has been superior to that of the United States and the EEC, although the shares themselves are relatively small.
- The growth in value of Canada's exports to the developing regions has been slower than that of industrial countries as a whole.
- Canada's trade has been concentrated in the slowest-growing markets — those in Latin America and Asia.
- Canada's exports to developing countries have consisted of a larger proportion of primary products and a smaller proportion of engineering and transportation equipment and manufactures than have the exports of the industrial countries taken as a group.
- Canada's share of manufactures to developing countries increased — from 27 percent to 34 percent — between 1971 and 1977, although by 1977 these manufactures accounted for only 9 percent of Canada's total exports of manufactures.
- Despite imbalances in the commodity composition and geographic destination of Canada's exports, Canadian firms have been relatively successful in finding markets for manufactures exports in some of the wealthier developing countries; furthermore, their share of the market in several middle-income developing countries has been increasing.
- The concentration of manufactures exports to developing countries in telecommunications and transportation equipment and in industrial machinery indicates current export capacity on which to build short-term gains. However, in the years ahead, increasing competition from developing countries must be anticipated.

Canada's Export Performance Compared with That of Other Industrial Countries

Three measures will be used to compare Canada's export pattern with the patterns of other industrial countries. The first compares trends in each country's value share of total OECD manufactures exports to oil-importing and oil-exporting developing countries. The second compares the growth in the value of Canada's manufactures exports to each of the developing regions with the comparable growth rates for all industrial countries. The third compares the commodity distribution of Canada's exports to developing regions with the distribution for industrial countries as a group.

In Table 3 the trend in Canada's share in the value of total OECD manufactures exports to oil-importing and oil-exporting developing countries is compared with the trend in shares of the

is very small, although for individual countries the proportion may be quite large. During the 1970s, however, such countries would be found mainly in the lower-income group. Because of lack of data, this study does not analyze the distribution of export financing by source.

TABLE 3

OECD Manufactures Exports to Developing Countries, 1962-76
(percentage shares)

	1962	1967	1969	1970	1971	1972	1973	1974	1975	1976
<i>Oil-Importing Developing Countries</i>										
Canada	2.0	2.2	2.2	2.5	2.3	2.2	1.8	1.9	1.9	2.0
United States	31.3	29.6	27.3	27.8	25.1	24.3	24.6	26.0	26.1	25.9
Japan	13.1	18.9	21.8	21.8	24.3	24.5	25.8	26.2	24.2	26.0
EEC ^a	44.1	39.1	37.7	37.4	38.2	38.0	35.9	35.2	37.0	35.7
Other OECD countries	9.5	10.2	11.0	10.4	10.1	11.0	11.9	10.7	10.7	10.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Oil-Exporting Developing Countries</i>										
Canada	1.4	2.0	1.9	2.4	2.0	2.1	1.5	1.5	1.5	1.6
United States	24.4	25.6	24.0	23.3	22.0	20.4	18.5	19.0	19.9	21.3
Japan	8.2	11.0	13.3	13.4	15.6	16.9	17.7	20.7	18.8	17.9
EEC ^a	51.5	53.9	53.0	52.5	52.0	51.2	52.0	49.4	50.5	49.1
Other OECD countries	14.5	7.5	7.8	8.5	8.4	9.4	10.3	9.4	9.2	10.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Because of rounding, some columns do not sum to 100.0.

^a Nine member countries.

Source: Department of Industry, Trade and Commerce, *Canada's Trade Performance — 1960-1977*, Vol. 1 (Ottawa, 1978), pp. 140 and 142, Tables 6.17 and 6.19.

TABLE 4

**Growth in Value of Exports to Developing Countries,
Canada and All Industrial Countries,^a 1971-75,
and Distribution of Canadian Exports, 1975**

	Africa	Latin America	Middle East	Asia
All industrial countries (% change)	206	160	448	130
Canada (% change)	199	198	230	121
Shares of total Canadian exports to developing countries, ^b 1975 (%)	14	39	15	32

^aValue of exports on which this table is based is expressed in U.S. dollars.

^bIn 1971 the regional shares were 11, 44, 11, and 34 percent, respectively.

Source: United Nations, *Yearbook of International Trade Statistics*, 1976 (New York, 1977).

major OECD countries during the 1962-76 period.⁸ The following points stand out:

- Canada's share of total exports to oil-importing countries has been relatively small, averaging 2 percent of the total. The share climbed from 2 percent in 1962 to a peak of 2.5 percent in 1970 but had returned to the original level by 1976.
- Canada's share of total exports to the oil-exporting countries averaged less than 2 percent over the period but rose from 1.4 percent in 1963 to a peak of 2.4 percent in 1970 and by 1976 was 1.6 percent.
- The sizes of the shares of the United States and the EEC, while much larger than Canada's, declined over the period.
- Japan's performance contrasted sharply with all others; Japan doubled its shares of exports to both groups of developing countries, with a peak during the 1974 trade boom.

As a performance indicator, the share measure, by definition, shows only that the trend in the level of Canada's manufactures exports moved with the trend in the level of exports from the OECD countries as a whole. A different picture emerges when the second measure is used (see Table 4) — a measure that compares the rate of growth in the value of Canadian exports to developing regions with the growth in the value of exports of all industrial countries:

- In all four developing regions, Canada's exports grew more slowly in value than did the value for all industrial countries' exports.

⁸Comparative analysis such as is undertaken here is flawed when it is based on value figures, since a common currency must be used. Any country that has depreciated its currency will have a reduced value share, and the performance indicator will be misleading. However, since volume measures are not available for this analysis, value measures are used, keeping the flaw in mind.

TABLE 5

Ratio of Canada's Commodity Shares of Exports to Developing Countries to Commodity Shares of Exports from All Industrial Countries, 1975^a

	<u>Africa</u>	<u>Latin America</u>	<u>Middle East</u>	<u>Asia</u>
Food	3.70	1.60	4.00	2.50
Crude materials	2.50	2.00	2.50	2.30
Mineral fuels	n/a	n/a	n/a	n/a
Chemicals	.12	.23	.08	.50
Machinery and transport equipment	.60	1.00	1.00	.50
Other manufactures	.60	1.00	.60	1.00

n/a = not available

^aThis table is constructed from two tables. The first contains Canada's commodity composition of exports, and the second, the commodity composition of exports from all industrial countries. The ratios in the above table are then constructed by dividing Canada's share for each commodity and region by the comparable share for all industrial countries. When Canada's share is larger than that for all industrial countries, the resulting ratio is larger than one. Conversely, when Canada's share is smaller than the average for all industrial countries, the ratio is smaller than one.

Source: *Ibid.*

- Canada's exports were concentrated in the regions in which slowest export growth occurred.⁹

The first point is evident when the entries in the second line of Table 4 are compared with the entries in the first line. In Latin America, to take an example from the table, the value of Canada's exports grew 108 percent between 1971 and 1975, compared to 160 percent for industrial countries as a whole — that is, demand for Canadian goods grew more slowly than that for goods from the industrial countries as a group. The concentration of exports can be seen in the third line of the table. In 1975, 39 and 32 percent of all Canadian exports to developing regions were to Latin America and Asia, respectively — the two slower-growing markets. It should also be kept in mind that the figures in the table are based on U.S. dollar values. Since the Canadian dollar was appreciating over this period, values expressed in U.S. dollars magnify the growth in the value of Canadian exports beyond what actually took place in volume terms.

The third measure for comparing Canada's trade pattern with the patterns of industrial countries as a whole is illustrated in Table 5. This table is constructed from two other tables. One table contains, for each developing region, the distribution of Canada's ex-

⁹It should be noted, however, that the proportion of Canada's exports destined for the faster-growing markets in Africa and the Middle East increased between 1971 and 1975, while the proportion destined for the slower-growing markets in Latin America and Asia declined (see footnote b, Table 4).

ports by commodity group. The other contains the same distribution for the exports of all industrial countries. The ratios in Table 5 are obtained by dividing Canada's commodity distribution in each region by the comparable commodity distribution for all industrial countries in the same regions.

Using the figures for Latin America in the second column as an example, the ratio of 1.60 for food means that the proportion of food in Canada's total exports to Latin America in 1975 was 1.6 times larger than that for all industrial countries. In 1975 the proportion of crude materials in exports to Latin America was twice as large for Canada as for all industrial countries. In contrast, the proportion of chemicals in Canada's exports to the region was .23 — not quite a quarter of the share of that product group in the exports of all industrial countries. The proportion of machinery and transport equipment and of other manufactures in Canada's total was the same as the proportions for the industrial countries as a whole; hence the ratio is 1.00.

Three characteristics of Canada's trade pattern stand out in Table 5:

- The shares of primary commodities in Canada's exports were two to four times greater than the average for the industrial countries.
- The shares of machinery and transport equipment in Canada's exports to Africa and Asia were less than the average.
- The shares of other manufactures in Canada's exports to Africa and the Middle East were less than the average.

Canada's relatively weak performance in manufactures exports and its continued reliance on primary commodities, which are apparent in these comparisons, are a matter of concern, since it is in manufactures exports that future expansion in demand is expected. Canada's continued reliance on primary commodities will encounter increasing competition from lower-cost suppliers in the years ahead. If Canada is to reduce its reliance on primary commodity exports, it must improve its export performance in manufactures, presumably by building on areas of strength.

Patterns of Canada's Trade: Changes Through Time

Changes in Canada's manufactures exports since the early 1970s will be illustrated in two ways. First, proportions of manufactures in the total purchases from Canada by developing and industrial countries in 1971 and 1977 will be examined. Second, for selected developing countries, the manufactures share in Canada's exports to each country will be compared with the manufactures share in each country's total imports from abroad.

Table 6 illustrates the position of manufactures in Canada's overall exports to the developing regions and the industrial countries in 1971 and 1977 and gives the commodity composition of exports to developing countries for these years. Between 1971 and

TABLE 6
Commodity Shares of Canadian Exports, 1971 and 1977
(percentages)

Commodity	Industrial Countries		Developing Countries		Asia ^a		Africa ^b		Middle East		Latin America		Central America	
	1971	1977	1971	1977	1971	1977	1971	1977	1971	1977	1971	1977	1971	1977
Food	10	8	38	30	52	38	42	41	58	29	14	14	35	35
Crude materials (inedible)	20	22	6	8	9	15	5	10	4	4	5	6	3	5
	30	30	44	38	61	53	47	51	62	33	19	19	38	40
Fabricated materials (inedible)	34	35	29	28	25	36	21	13	19	17	39	26	28	33
End products (inedible)	36	35	27	34	14	11	32	36	19	50	42	55	34	27
	70	70	56	62	39	47	53	49	38	67	81	81	62	60
	100	100	100	100	100	100	100	100	100	100	100	100	100	100

^aExcluding Japan, which is included with the industrial countries.

^bExcluding South Africa.

Source: Statistics Canada, *Exports by Countries, 1973 and 1977* (Ottawa, 1974 and 1978).

TABLE 7

Comparison of Changes in Commodity Composition of Canada's Exports to Selected Countries with Changes in Commodity Composition of Each Country's Total Imports, 1970-71 and 1975-76
(percentages of Canada's exports to each country and percentages of country's total imports)

Country	Manufactures				Semi-Processed				Primary			
	1970-71 ^a		1975-76 ^a		1970-71 ^a		1975-76 ^a		1970-71 ^a		1975-76 ^a	
	Import Share	Export Share	Import Share	Export Share	Import Share	Export Share	Import Share	Export Share	Import Share	Export Share	Import Share	Export Share
Argentina	37	28	24	32	48	67	52	49	15	5	24	19
Brazil	40	16	35	20	35	51	32	23	25	33	33	57
China	n/a	2	n/a	1	n/a	4	n/a	26	n/a	93	n/a	74
Hong Kong	31	15	30	25	36	58	33	51	33	27	37	24
India	29	14	17	5	31	40	30	46	40	46	53	49
Indonesia	41	87	40	39	42	7	40	35	17	6	20	26
Iran	47	45	49	76	45	19	34	14	8	36	17	10
Korea	32	6	28	16	30	49	26	34	38	45	46	50
Malaysia	38	39	41	25	24	38	25	52	38	23	34	23
Mexico	58	43	42 ^b	30	27	30	30 ^b	53	15	27	28 ^b	17 ^c
Saudi Arabia	50	39	55 ^b	94	21	19	25 ^b	3	29	42	20 ^b	3
Singapore	35	40	36	30	27	40	24	57	38	20	40	13
Taiwan	n/a	33	n/a	8	n/a	33	n/a	63	n/a	34	n/a	29
Venezuela	55	72	57	81	32	22	30	16	13	6	13	3
Japan	15	3	11	3	17	23	11	19	68	74	78	78

n/a = not available

^aThe purpose of this table is to compare the size of the share of each major commodity group in Canada's total exports to each of the countries listed with that of the country's total imports from the rest of the world. To facilitate the comparison, the table is divided by major commodity groups. Under each group the proportions of that commodity in Canada's exports in 1971 and 1976, respectively, are listed in the columns entitled "export share." The columns entitled "import share" list the proportions of each commodity in the country's imports from the rest of the world in the years 1970 and 1975. Thus in each year the import shares and the export shares for each of the three commodity groups will total 100 percent when added across the table.

^b1974 share.

Sources: Import shares are calculated from "Country Notes," in United Nations, *op. cit.* Export shares are calculated from Statistics Canada, *op. cit.*

1977 the proportion of food in total exports to these countries declined from 38 percent to 30 percent. The share of crude materials declined slightly, from 29 percent to 28 percent. Table 6 illustrates two important points:

- Between 1971 and 1977, finished manufactures (end products, inedible) as a share of total exports to developing countries increased from 27 percent to 34 percent.
- This increase was due to an increased demand for manufactures in the Middle East, Latin America, and — to a lesser extent — Africa.

While the developing countries increased the relative emphasis on manufactures in their imports from Canada, however, these manufactures accounted for only 7 percent and 9 percent of Canada's total exports of manufactures in 1971 and 1977, respectively.¹⁰ By comparison, in 1977 the developing countries were markets for 37 percent of manufactures exported by the United States and for 41 percent of those exported by Japan.¹¹

If Canada is to attempt to market a larger portion of manufactures exports in developing countries, promising markets and products must be identified. In Table 7 the manufactures shares in Canada's overall exports to selected developing countries are compared with the manufactures shares in each country's total imports from abroad. A comparison of the size of a country's export share with the size of its import share can then be used as an indicator of Canada's success in sales of manufactures to that country. For purposes of this discussion, we shall assume that Canada has been successful in countries where the size of its export share exceeds the size of the country's import dependence for the product group in question. The same comparisons can be made for primary commodities and for semi-processed goods.

For example, Table 7 shows that, in 1970-71, 37 percent of Argentina's imports from the rest of the world consisted of manufactures, while 28 percent of Canada's exports to Argentina consisted of manufactures. In 1975-76 the proportion of manufactures in Argentina's imports declined to 24 percent, while that in Canada's exports grew to 32 percent. By the criterion defined above, Canada was successful in its manufactures exports to Argentina — at the same time that Argentina reduced the relative role of manufactures imports, Canada increased the manufactures share of its exports to that country.

This type of comparison helps us to identify those developing countries where, despite the weakness in Canada's overall manufactures exports performance, some export breakthroughs have occurred. Four aspects of performance stand out:

¹⁰ Statistics Canada, *Exports by Countries*, 1973 (Ottawa, 1974) and 1977, *op. cit.*

¹¹ GATT, *International Trade, 1977/78* (Geneva, 1978).

- Canada has been successful in exporting manufactures to Argentina, Iran, Saudi Arabia, and Venezuela. Not only did its export share of manufactures exceed the import share in each country; it also increased between the two periods.
- In Indonesia a strong Canadian performance in 1971 contrasts with a weak showing in 1976, reflecting a one-time sale of motor vehicles in 1971.
- Canada's export performance was weak in India, Malaysia, Mexico, and Singapore. Not only were the manufactures shares in Canadian exports lower than the import shares for these countries, but they declined over the period.
- Canadian performance was weak, but improving, in Brazil, Hong Kong, and Korea. Canada's export shares were lower than the import shares of these countries, but they increased over the period.

Lack of comparable import data for Taiwan and China precludes a similar comparison.

Greater detail on actual purchases by these countries can be obtained from Statistics Canada's reports on trade in end products.¹² Manufactures exports to developing regions were concentrated in a few countries in each region. In 1977 the countries and their shares of total manufactures exports to each region were as follows:

- Iran, Saudi Arabia, and Turkey accounted for 68 percent of total manufactures exports to the Middle East.
- Argentina, Brazil, and Venezuela accounted for 91 percent of the Latin American total.
- Algeria, Kenya, and Zambia accounted for 60 percent of the African total, excluding South Africa.
- Indonesia, Malaysia, Pakistan, and the Philippines accounted for 44 percent of the Asian total, excluding Japan.

By commodity, more than 70 percent of manufactures exports to each region were accounted for by:

- motor vehicles, parts, and engines
- telecommunications equipment
- prefabricated buildings
- machinery for materials handling, mining, manufacturing, pulp and paper, construction, electric lighting and distribution, electric generators, turbines, ships, boats and aircraft, offices and laboratories.

The analysis suggests that, despite Canada's reliance on primary commodity exports in its overall commodity composition and despite geographic imbalances in the destination of Canadian ex-

¹² Statistics Canada, *Exports by Countries*, 1977, *op. cit.*

TABLE 8

**Percentage Composition of Developing Countries'
Manufactures Exports, 1960-75**

Product Group	1960	1965	1970	1975
Machinery and transport equipment ^a	7.5	8.9	14.8	21.9
Clothing	1.8	3.0	13.8	17.1
Textiles	27.8	25.1	19.9	15.1
Chemicals	11.9	11.3	9.8	10.5
Iron and steel	3.6	4.7	5.9	4.0
Other products	47.4	47.0	35.8	31.4
	100.0	100.0	100.0	100.0

^aIncluding electronics.

Source: Donald B. Keesing, *World Trade and Output of Manufactures: Structural Trends and Developing Countries' Exports*, World Bank Staff Working Paper No. 316 (Washington, D.C.: World Bank, 1979), p. 23, Table 16.

ports to developing countries, firms exporting transportation equipment and industrial machinery have been successful in some of the wealthier countries, and their share of the market in several of the middle-income developing countries has been increasing.

It would be simple to extrapolate from this performance and suggest that Canada seek to duplicate in other countries the export patterns observed in Argentina, Iran, Saudi Arabia, and Venezuela. However, it should also be noted that import requirements vary considerably. For example, both Brazil and Korea are themselves becoming exporters of machinery and transport equipment. In addition, a recent World Bank study¹³ shows that machinery and transport equipment exports have begun to replace clothing and textiles as the principal manufactures exports of developing countries (see Table 8). Its findings imply that Canadian firms in these industries will face increasing competition in international markets. Even so, it is important to realize that Canada can make short-run export gains by building on its current capacities. Particular attention is needed to the problems of these markets. Some of the policy issues are discussed below.

Issues in Exporting to Developing Countries

If Canada is to take maximum advantage of export opportunities in the developing countries, the implied policy goals are to increase the value of manufactures exports to middle-income countries, in particular, and to diversify the range of manufactures exported. However, there are a number of problems peculiar to export-

¹³ Donald B. Keesing, *World Trade and Output of Manufactures: Structural Trends and Developing Countries' Exports*, World Bank Staff Working Paper No. 316 (Washington, D.C.: World Bank, 1979), p. 23, Table 16.

ing to developing countries that will determine the extent to which these goals can be realized. The discussion in this section is intended to suggest the issues on which debate should focus if Canada is to attempt to increase the value and range of exports to these countries. The first issue is the overall market environment created for Canadian exporters by Canada's exchange rate policy and by tariff structures in the countries with potential markets. A second set of issues concerns the policy environment in developing countries (many of them are planned economies) and the export promotion activities of competing industrial countries. A third set of issues relates to the interest and capacity of Canadian industry to export to developing countries. Institutional structures in Canada to facilitate and promote exports are a final set of factors that must be taken into account.

Exchange Rate Policy

The valuation of the Canadian dollar is a crucial factor in assuring that exporters have a fair chance to compete internationally. Since 1977, depreciation of the dollar has clearly assisted exporters. Raw materials suppliers exporting at prices fixed in international markets in U.S. dollars have enjoyed windfall gains. The volume of manufactures exports, which are price-sensitive, has increased since 1977. The Bank of Canada export volume index in manufactures other than auto parts shows that the index of manufactures to the United States increased 43 percent between 1976IV and 1978IV; the index for exports to other countries increased by 64 percent in the same period.¹⁴ This breakdown does not show developing countries specifically, but Statistics Canada data on the value of exports in 1977-78 do show that the average value of manufactures exports from Canada to the developing nations and Japan increased by 27 percent between 1977 and 1978, compared with an increase of only 19 percent in the value of exports to the United States and Western Europe.¹⁵

GATT Negotiations

Canada's policies toward the tariff structures of developing countries are another factor contributing to the market environment for Canadian exporters. Negotiations with middle-income developing countries at the Tokyo Round of the GATT Multilateral Trade Negotiations can affect decisions by the latter to reciprocate in the reduction of tariff barriers to allow greater access to their markets. Preliminary indications are that several middle-income countries are prepared to make concessions.

¹⁴ Bank of Canada, *Bank of Canada Review*, March, 1979 (Ottawa, 1979), Table 76. Because of quarterly fluctuations in the volume indexes, the size of the difference varies with the period of comparison that is chosen.

¹⁵ Statistics Canada, *Exports by Countries*, January-September, 1978 (Ottawa, 1978).

Role for Public Policy in Assisting Competitiveness

In addition to tariff measures to improve the market environment, problems existing on both the demand and the supply sides suggest that Canadian public policy could be more sharply focused on assistance to exporters to developing countries who face increasing international competition in these markets. On the one hand, problems are created by characteristics of the policy environments in the developing countries; on the other hand, problems are created by the export-promoting activities of Canada's competitors. In the developing countries, most economies have strong central planning authorities making significant trade decisions. As a result, the creation of major trade relationships can depend on government-to-government communications instead of on market signals. The importance of relevant institutional structures to export promotion is discussed below. In addition, many of Canada's competitors have long-standing political or geographic ties with developing countries — ties that Canada lacks. Thus public intervention can provide a useful means of compensating for the commercial advantages inherent in such relationships. Most of Canada's competitors in both industrial countries and middle-income developing countries promote exports through tax deferral schemes (such as the DISC program in the United States), duty concessions on imported inputs required for exports, and government production subsidies, among others. If Canada wants to turn in a solid export performance, it appears to have little choice but to meet the interventionist policies that other countries are using to gain sales. However, many of these measures have been subject to scrutiny in the GATT negotiations, with a view to reducing their use and standardizing the kinds of retaliatory responses available to injured parties. Thus a review of Canada's fiscal policies to ensure that incentives for exporters are at least as good as those available to Canada's competitors will be timely once the GATT negotiations are completed.¹⁶ It should be understood, however, that the intent of such a review is not that Canada should seek to out-subsidize its partners.

Probably the most significant barriers that Canadian exporters face in developing countries are distance and lack of familiarity with markets. Most Canadian suppliers regard the United States as their major export market. Sales there can be arranged with relatively small expenditures of time and effort. The relative proximity of the United States and the ease of exporting to it contrast sharply with the distance and knowledge barriers that must be overcome in developing countries. Public policy can help to reduce these barriers, but in the final analysis it is the exporting firms themselves that

¹⁶ One policy instrument used to promote exports to the poorer developing countries receiving Canadian bilateral aid is CIDA's tied-aid policy. This instrument will not be included in this discussion of export promotion to the middle-income countries. It is generally agreed that tied aid is employed to prevent the use of financial assistance for the purchase of goods produced more competitively by other industrial countries. As a result, the impact on the receiving country is to reduce the real value of the resources they receive.

will have to be convinced not only that greater effort is needed to develop such markets but that payoffs exist and will grow in the decades ahead.

Export insurance and credit terms for export financing are another set of particularly important factors in winning sales in developing countries. Export insurance is particularly important because of the risks of selling to distant, and sometimes financially insecure, buyers. Since most oil-importing countries face foreign exchange constraints, the terms and availability of export credit can also be crucial factors in making a sale. Canadian businessmen generally agree that the Export Development Corporation (EDC) provides valuable export finance and insurance services. Compared to Canada's competitors, however, Canada's credit terms are considered to be uncompetitive. Studies conducted in 1977 and 1978 by the United States Export-Import Bank indicate that, while government-to-government lines of credit are often granted at preferential and fixed interest rates, commercial export credits — which make up the largest proportion of such loans — depend on market interest rates, which have been relatively high in recent years. As a result, the blended interest rates on long-term financing available from Canada (that is, the combined public and private rates for credits for more than five years) are considered to be among the highest available from an OECD country.¹⁷

There are two main reasons for this apparent lack of competitiveness. First, Canada is one of the few countries to conform to OECD guidelines on export credit rates. Most of its competitors have reduced their rates below the guidelines. Second, since the EDC is designated a profit-making crown corporation and must raise its funds in the open market, it has limited ability to cut its rates.

The issues that need to be resolved in this area are twofold. First, the priority of sales to developing countries in the EDC's objectives needs to be clarified. Second, if exports to developing countries are a priority for the Corporation, it remains to be determined whether the EDC's effectiveness as an instrument of export promotion in these markets is constrained by the Corporation's profit-making requirement. Clear evidence is lacking that sales to developing countries have been lost because of uncompetitive credit terms. Other factors, such as speed in decision-making, can also be important.

Supply Capacity of Canadian Firms

It is obvious that Canada's exchange rate policy has an important influence on export performance. Several other areas of public policy can also facilitate exports. However, even with favorable public policies, the fundamental issue to be faced is the question of the capacity of Canadian firms to supply developing-country mar-

¹⁷ Export-Import Bank of the United States, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States* (Washington, D.C.: U.S. Government Printing Office, 1978), p. 23.

kets. As we have seen, Canadian firms in the telecommunications and transportation equipment and industrial and mining machinery sectors are already exporting to middle-income developing countries. The success in these sectors is largely attributable to a few large firms that face fewer risks of market exploration than do smaller firms. Mechanisms are needed to extend the sizes and resources of smaller firms — mechanisms such as the formation of consortia of Canadian firms and the development of joint ventures with foreign firms having geographic proximity to developing countries and advantages in terms of contacts and language. The more serious question that will dominate efforts to make major strides in export expansion to developing countries is that of the structure of the Canadian economy. The impact of the corporate structures of Canada's branch plants, built primarily to supply the domestic market, on their ability and desire to export is a fundamental question to be faced.

Export Promotion

Finally, issues relating to export promotion in developing-country markets include questions of whether Canada needs to develop a more focused strategy for export promotion in developing nations and whether existing institutional arrangements within Canada for export promotion are adequate.

A greater focus in Canada on a strategy to promote exports to developing countries seems to be desirable. The middle-income developing countries provide potential markets for investment goods, and they are readily identifiable as targets for marketing efforts. Because of the policy environments in many countries, the creation of trade relationships is often facilitated by high-level government-to-government contact, as well as by private-sector missions. For example, in China, Indonesia, Mexico, and the Philippines, high-level government and private-sector contacts have been made recently with the express purpose of opening up export opportunities. Mexico is a particularly important trading partner. Not only is it geographically proximate, but it is receptive to ties with industrial countries other than the United States, and possibilities exist for collaboration in the exploration of oil and gas reserves — activities in which Canada has long experience and considerable expertise. China is another country with political preferences, other things being equal, for trading with Canada. In 1978, after China abandoned its bootstrap strategy in favor of the use of modern technology to achieve its goal of self-reliance, Canada sent high-level private- and public-sector representatives to discuss an expansion of trade between the two countries. Indonesia and the Philippines also received the same ministerial mission that visited China, but there are a number of other countries that should be accorded similar priority, such as Algeria, Malaysia, Nigeria, and Thailand; and further attempts at this level should be made to expand export opportunities in Brazil and Korea.

In addition to high-level contacts, the quantity and quality of ongoing contact by commercial representatives in foreign missions is important. Commercial representatives must have appropriate authority if they are to pursue new markets aggressively and appropriate resources if they are to provide information and demand forecasts to Canadian suppliers, as well as to supply practical assistance in matching Canadian capacity with local demand.

A number of export promotion services aimed at potential developing-country markets and at Canadian suppliers exist in the form of government-sponsored trade missions and subsidies for travel by Canadian exporters and by potential importers. These services are generally offered free, with little direct incentive to government or to businessmen to participate. An institutional mechanism with more active involvement of both sectors would be a joint public-private-sector effort with an intermediating price mechanism. Such a model exists in the Swedish Export Council, a joint effort of government and private industry which receives 50 percent of its budget from government, with the balance coming from private subscriptions and fees charged firms utilizing its services. The membership fee provides an incentive to members to use the services and to the Council to provide valuable services. The Council fields trade commissioners who are government employees. Within Sweden, the Council works aggressively with small member firms, which constitute more than 60 percent of the members. Firms can rent space in prospective customer countries and draw on the services of people in the trade commission offices who know the local markets.¹⁸

Institutional mechanisms for reducing the barriers to exporting can be important adjuncts to the export promotion activities discussed above. The privately organized trade council is one such mechanism that could be used more widely in developing countries. The Canada-China Trade Council, for example, accepts member companies for a \$2,500 annual fee and a minimum two-year commitment. In return, research, translation, and promotion services are provided for members to reduce language and information barriers.

Another mechanism that could be used by Canada's private sector is the trading house. Trading houses employ experts on markets and on exporting to particular countries. At present, Canada has very few trading houses dealing expressly with developing countries. A Department of Industry, Trade and Commerce study¹⁹ reported recently that these institutions account for only 10 percent of Canada's exports, compared with 68 percent in Japan, 30 percent in the United States and Germany, and 15-20 percent in Sweden. Indeed, trading houses located in Canada are largely foreign-owned and oriented to the export of Canadian raw materials. Canadian

¹⁸ Work in America Institute, *World of Work Report*, Vol. 4, No. 1 (Scarsdale, N.Y., 1979).

¹⁹ "More than Ten Percent Operators," *Financial Post* (Toronto), March 10, 1979.

businessmen have yet to exploit this mechanism for reducing the barriers to foreign markets.

Summary

In summary, Canada has a number of important issues to face in orienting its macro-economic and micro-economic policies and its institutions toward more active promotion of exports to the developing countries. For reasons outlined above, the role of the public sector will be important. Some of the leading issues to be faced include:

- Creation of favorable market conditions for Canadian exporters through an appropriate exchange rate policy and through the GATT trade negotiations with middle-income developing countries.
- Review of post-GATT fiscal policies to ensure that the export incentive structure is at least as favorable for Canadian exporters as the structures of their competitors.
- Evaluation of the objectives of the EDC to ensure that its services are provided at terms competitive with the export financing available to other industrial-country suppliers.
- Development of mechanisms such as consortia and joint ventures to expand the capacity of small Canadian firms to participate in foreign markets.
- Facing the fundamental question of the extent to which the structure of Canadian industry is oriented toward exporting.
- Formulation of a trade strategy that focuses on middle-income-country markets and fields high-level, aggressive commercial representatives in foreign missions in countries in which markets are likely to expand over the next decade.
- Exploration of joint public-private-sector mechanisms for export promotion in the developing countries.
- Greater development of private-sector initiatives to increase expertise on developing-country markets and to reduce information barriers through trade councils and trading houses.

These issues suggest the need for a review of the orientation of Canadian policy toward exports to developing countries. Specific policy adjustments could contribute to the greater competitiveness of Canadian suppliers in markets that are among the most rapidly growing in the world. In the final analysis, however, the results will depend on the determination and ingenuity of Canada's exporting firms.

Conclusion

Rapid economic growth in the developing countries means rapid growth in imports from the industrial countries. In the past, Canada's share in these export sales has been concentrated in pri-

mary products; the share of manufactures in its exports, while relatively modest and mainly concentrated in a few of the middle-income developing countries, has been growing. Opportunities to further enlarge both the manufactures share and the overall volume of Canadian trade exist in a number of other middle-income countries.

While the possibility of constraints on Canada's long-run competitiveness in manufactures cannot be ignored, possibilities exist in the short run for gains based on current competitiveness in the telecommunications and transportation equipment and industrial and mining machinery sectors. To take advantage of these opportunities, however, Canada has to recognize the nature of the barriers to trade that must be overcome. The federal government has an important role to play in overcoming many of these barriers and in opening lines of communication with governments in developing countries, which have come to play such a dominant role in economic activity.

In the past, Canada's commercial policy has been preoccupied with the defense of Canadian industry from imports arriving from the middle-income countries. If Canada is to expand its trading potential, however, much more active and focused attention is required in the years ahead to the development of new markets in the countries that are becoming the real engines of economic growth in the world economy. At the same time, the fact must not be overlooked that, in order to buy more from Canada, developing countries must have more access to Canadian markets.

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